

Message Text

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DRAFTED BY EB/ICD:EAWENDT:KAM

APPROVED BY EB:JLKATZ

EB/ORF:SWBOSWORTH

S/P:JGARTEN (IN DRAFT)

E:RSORENSEN (SUBS)

S/S:O-AWOTTO

S:HCOLLUMS

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FM SECSTATE WASHDC

TO USDEL SECRETARY PRIORITY

C O N F I D E N T I A L STATE 220661 TOSEC 260097

EXDIS

E.O. 11652: N/A

TAGS: EMIN, EPAP, ETRD, UNCTAD, CIEC

SUBJ: ACTION MEMORANDUM: UNCTAD COMMON FUND (7618762)

FOR THE SECRETARY THRU ROGERS FROM EB (KATZ, ACTING)

1. THE PURPOSE OF THIS MEMORANDUM IS TO SEEK YOUR APPROVAL FOR A STATE POSITION ON THE UNCTAD-PROPOSED COMMON FUND BASED UPON CONTINUED PASSIVE OPPOSITION FOR THE PRESENT WITH THE POSSIBILITY OF LATER MOVEMENT TOWARD A POSITION OF PROPOSING ALTERNATIVE APPROACHES TO FUNDING OF BUFFER STOCKS. THE ECONOMIC POLICY BOARD, AT ITS MEETING OF AUGUST 31, REQUESTED AGENCY VIEWS ON THE APPROACH THE UNITED STATES SHOULD TAKE ON THE COMMON FUND. BECAUSE AGENCY POSITIONS ON THIS ISSUE DIVERGE, THEIR VIEWS WILL BE INCORPORATED BY ASSISTANT TO THE PRESIDENT FOR ECONOMIC AFFAIRS SEIDMAN IN A MEMORANDUM TO THE PRESIDENT ASKING HIM TO DECIDE WHAT OUR APPROACH SHOULD BE. WE WILL KEEP CLOSE TRACK OF THE STATUS OF SEIDMAN'S MEMORANDUM AND ADVISE YOU IF A SEPARATE STATE INTERVENTION WITH THE PRESIDENT WILL BE REQUIRED.

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2. BACKGROUND/ANALYSIS. AT NAIROBI, WE AGREED TO PARTICIPATE IN A PREPARATORY CONFERENCE EARLY IN NOVEMBER TO DISCUSS THE OBJECTIVES, STRUCTURE, AND FINANCING NEEDS OF A COMMON FUND. HOWEVER, WE DID NOT COMMIT OURSELVES TO JOIN IN THE NEGOTIATING CONFERENCE WHICH IS SCHEDULED TO FOLLOW.

3. IN VARIOUS FORUMS THE USG HAS OPPOSED THE UNCTAD-PROPOSED COMMON FUND AS BASED ON FAULTY ANALYSIS AND ASSUMPTIONS AND AS BEING OF DUBIOUS ECONOMIC BENEFIT TO THE DEVELOPING COUNTRIES. NEVERTHELESS, THE COMMON FUND IS THE POLITICAL CENTERPIECE OF THE G-77 PLATFORM. LDCE VIEW IT AS A POTENTIAL GLOBAL INSTITUTION THEY COULD CONTROL IN FURTHERANCE OF NIEO CERDS OBJECTIVES. WE EXPECT THAT THE G-77 WILL PUSH HARD FOR THE ESTABLISHMENT OF A FUND, THAT OECD COUNTRIES WITH THE EXCEPTION OF GERMANY AND POSSIBLY THE UK AND JAPAN WILL SUPPORT SOME VERSION OF THE COMMON FUND, AND THAT A SMALL, BUT MOST LIKELY ECONOMICALLY INEFFECTIVE FUND COULD WELL BE ESTABLISHED EVEN WITHOUT US PARTICIPATION.

4. THE EXISTENCE OF AN LDC-DOMINATED COMMON FUND, WHETHER OR NOT THE US PARTICIPATES, COULD BE POLITICALLY DISRUPTIVE. HOWEVER, WE DO NOT BELIEVE A COMMON FUND--WITH OR WITHOUT US PARTICIPATION--WOULD HAVE A SIGNIFICANT IMPACT ON MARKETS SINCE (1) THE US WOULD HAVE THE CAPABILITY OF BLOCKING OR LIMITING THE EFFECTIVENESS OF MOST COMMODITY AGREEMENTS BY ITS STANCE IN INDIVIDUAL NEGOTIATIONS; AND (2) AGREEMENTS THAT COULD BE CONCLUDED AND SUCCESSFULLY OPERATED WITHOUT OUR COOPERATION ARE EITHER OF LITTLE INTEREST TO US OR INVOLVE PRODUCTS THAT FACE STRONG COMPETITION ON US MARKETS FROM SYNTHETICS OR OTHER SUBSTITUTES.

5. BASED LARGELY ON A STATE DRAFT THE INTERAGENCY COMMODITY COMMITTEE FORWARDED TO THE EPB A DETAILED ANALYSIS OF THE FUND WHICH LAYS OUT THREE OPTIONS FOR THE US STANCE BETWEEN NOW AND THE NEGOTIATING CONFERENCE.

- (1) EXPRESS WILLINGNESS TO JOIN THE FUND.
 - (2) REJECT THE COMMON FUND BUT PROPOSE ALTERNATIVE APPROACHES TO THE COMMON FUNDING ISSUE.
 - (3) OPPOSE THE FUND, EITHER (A) PASSIVELY OR (B) ACTIVELY.
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6. WHILE NONE OF THESE OPTIONS PRECLUDES OUR PARTICIPATION IN THE NEGOTIATING CONFERENCE, OUR ATTENDANCE THERE WOULD BE HIGHLY UNLIKELY IN THE CASE OF OPTION 3B, WHILE OUR PARTICIPATION WOULD OF COURSE BE MORE EFFECTIVE UNDER A VARIANT OF OPTION 2.

7. WE BELIEVE THE US SHOULD CONTINUE ITS STANCE OF PASSIVE

OPPOSITION TO THE COMMON FUND (OPTION 3A) FOR THE PRESENT. AT THE SAME TIME WE WOULD BE AS FORTHCOMING AS POSSIBLE--CONSISTENT WITH OUR INTERESTS--IN THE INDIVIDUAL COMMODITY CONSULTATIONS. AT SOME POINT DURING THIS PERIOD, RATHER THAN SIMPLY OPPOSE THE COMMON FUND, WE MAY FIND IT DESIRABLE--BOTH FOR TACTICAL REASONS CONNECTED WITH THE COMMON FUND AS WELL AS OUR LARGER OBJECTIVES IN THE NORTH/SOUTH DIALOGUE--TO MOVE TOWARD THE MIDDLE GROUND OF ALTERNATIVE BUFFER STOCK FUNDING ARRANGEMENTS. ONE POSSIBLE ALTERNATIVE WOULD BE A VARIANT OF THE FOURCADE PROPOSAL--WILLINGNESS TO CONSIDER FINANCIAL RATHER THAN MANAGEMENT LINKAGE AMONG BUFFER STOCKS. IT IS NOT YET CLEAR WHEN OR EVEN IF SUCH PROPOSALS MIGHT BE MOST APPROPRIATE--TIMING AND TACTICS POSSIBLY BEING COLORED BY DEVELOPMENTS IN OTHER AREAS OF THE NORTH/SOUTH DIALOGUE SUCH AS CIEC. WE WILL THEREFORE NEED MAXIMUM FLEXIBILITY IN DEALING WITH THIS ISSUE.

8. OTHER AGENCIES--PARTICULARLY TREASURY AND CEA--MAY PUSH FOR A STRONGER LINE, PERHAPS ACTIVE OPPOSITION TO THE FUND (OPTION 3B) IN AN ATTEMPT TO PREVENT ITS CREATION UNDER ANY CIRCUMSTANCES. US OPPOSITION MIGHT NOT SUCCEED IN BLOCKING THE FUND IN ANY CASE, AND WE BELIEVE THE POLITICAL CONSEQUENCES OF SUCH AN APPROACH FOR NORTH/SOUTH COOPERATION WOULD OUTWEIGH ANY POSSIBLE ADVANTAGES.

9. IF WE MOVE AWAY FROM PASSIVE OPPOSITION, WE WILL HAVE TO RETURN TO THE EPB FOR FURTHER CONSULTATIONS ON THE SPECIFIC NATURE OF ANY ALTERNATIVE WE MAY WISH TO PROPOSE.

10. RECOMMENDATION. (A) THAT YOU APPROVE OUR PROPOSAL TO MAINTAIN OUR POSITION OF PASSIVE OPPOSITION TO THE COMMON FUND FOR THE TIME BEING.

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APPROVE

DISAPPROVE

(B) ALSO ATTACHED FOR YOUR APPROVAL IS A PROPOSED MEMORANDUM TO SEIDMAN CONVEYING THIS APPROACH AS STATE'S POSITION.

APPROVE

DISAPPROVE

ATTACHMENT: BEGIN TEXT:

MEMORANDUM

TO: MR SIEDMAN, ASSISTANT TO THE PRESIDENT FOR ECONOMIC
AFFAIRS

FROM: WILLIAM ROGERS, UNDER SECRETARY OF STATE FOR
ECONOMIC AFFAIRS

SUBJECT: USG POLICY TOWARD COMMON FUND

THE UNITED STATES IS CLEARLY ON RECORD AS OPPOSED TO THE

COMMON FUND PROPOSAL. WE HAVE STATED THAT WE CONSIDER
IT ECONOMICALLY UNSOUND AND INADEQUATE TO THE REAL
PROBLEMS OF ECONOMIC DEVELOPMENT IN GENERAL AND COMMODITIES
TRADE IN PARTICULAR. GIVEN OUR WELL-KNOWN POSITION ON
THE ISSUE, THE DEPARTMENT OF STATE SEES NO BENEFIT IN
MOUNTING AN ACTIVE CAMPAIGN AGAINST THE COMMON FUND.
MOREOVER, A POLICY OF ACTIVE OPPOSITION WOULD ENTAIL
NEEDLESS FOREIGN POLICY COSTS.

THEREFORE, WE FAVOR FOR THE TIME BEING A POLICY OF
PASSIVE OPPOSITION TO THE COMMON FUND. AS THE NORTH/
SOUTH DIALOGUE PROCEEDS AND IF THE PREPARATORY MEETING
ON THE COMMON FUND OCCURS IN NOVEMBER AS IS NOW TENTA-
TIVELY SCHEDULED, WE MAY FIND IT DESIRABLE TO DETAIL
AGAIN OUR OBJECTIVES TO THE UNCTAD COMMON FUND SCHEME
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AND TO MAKE ALTERNATIVE PROPOSALS FOR BUFFER STOCK
FINANCING. IF WE DECIDE THAT SUCH ACTION IS DESIRABLE,
WE WILL OF COURSE RETURN TO THE EPB FOR FURTHER
CONSULTATION WITH THE AGENCIES CONCERNED. END TEXT.

DRAFTED: EB/ICD:EAWENDT. CLEARANCES: EB:JLKATZ; S/P:JGARTEN
E:RSORENSEN. S:HCOLLUMS.

ROBINSON

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